

**AMERICAN WATER WORKS ASSOCIATION
BEFORE THE
WATER RESOURCES AND THE ENVIRONMENT SUBCOMMITTEE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U. S. HOUSE OF REPRESENTATIVES**

**STATEMENT ON

FINANCING WATER INFRASTRUCTURE PROJECTS**

JUNE 8, 2005

**PRESENTED BY
JULIUS CIACCIA, DIRECTOR
CLEVELAND DIVISION OF WATER
CLEVELAND, OHIO**

INTRODUCTION

Good morning Mr. Chairman. I am Julius Ciaccia, Director of Utilities for the City of Cleveland, Ohio. The Cleveland Division of Water provides drinking water to over 1.5 million customers in the Cleveland area. I am also the Chair of the American Water Works Association Water Utility Council and am here today on behalf of AWWA.

Founded in 1881, AWWA is the world's largest and oldest scientific and educational association representing drinking water supply professionals. The association's 57,000 members are comprised of administrators, utility operators, professional engineers, contractors, manufacturers, scientists, professors and health professionals. The association's membership includes over 4,800 utilities that provide over 80 percent of the nation's drinking water. AWWA and its members are dedicated to providing safe, reliable drinking water to the American people.

AWWA utility members are regulated under the Safe Drinking Water Act (SDWA) and other statutes. AWWA believes few environmental activities are more important to the health of this country than assuring the protection of water supply sources, and the treatment, distribution and consumption of a safe, healthful and adequate supply of drinking water.

AWWA and its members commend you for holding this hearing to address the growing infrastructure needs for financing water infrastructure projects in the coming years. In previous testimony before this Subcommittee and in our report entitled Dawn of the Replacement Era: Reinvesting in Drinking Water Infrastructure, published in May 2001, AWWA called for a new partnership for investing in drinking water infrastructure. AWWA recommended changing and expanding the existing Drinking Water State Revolving Fund to significantly increase federal funding for projects to repair, replace, or rehabilitate drinking water infrastructure to include the aging distribution pipes. We provided a copy of this report for the subcommittee at the hearing in April 2004. Although the Safe Drinking Water Act (SDWA) and the Drinking Water State Revolving Fund (DWSRF) are under the jurisdiction of another committee of the U.S. House of Representatives, we believe that the some aspects of the DWSRF may be useful for the subcommittee to consider in its deliberation of Clean Water State Revolving Fund (CWSRF) reforms. We also believe that Clean Water Act programs benefit drinking water utilities. In addition to providing cleaner sources of drinking water, Federal assistance to waste water infrastructure also can help drinking water utilities by freeing up local rate payer dollars that would have gone to fund federal wastewater mandates and thus enable drinking water utilities to adjust their rates to meet drinking water infrastructure needs.

THE INFRASTRUCTURE CHALLENGE

The May 2001 AWWA study was an analysis of twenty utilities. The study found that all twenty will need to increase spending on infrastructure repair and replacement over the next several decades, not because they have underinvested in the past, but because infrastructure laid down over a 60-80 year period will approach the end of useful economic life in a more compressed timeframe. All systems studied could meet this need for additional spending by increasing water bills between \$1 and \$6 per month if they begin now, with steeper increases required if they delay. EPA has estimated that the nationwide “funding gap” can be eliminated by raising water and wastewater bills by three percent annually in real terms. For most utilities, that represents a challenge, but not a crisis.

Having said that, we know that some utilities are far more challenged than the average, by expensive federal mandates such as Combined Sewer Overflow controls; by population declines and resulting stranded assets; by the costs of meeting new standards or security enhancements; or by economic hardship in the community. AWWA supports a significant increase in federal support for water and wastewater infrastructure to help these communities. We believe that CSO mandates justify federal grants. Other communities needing assistance should find it in the form of low or no interest loans or combinations of such loans and grants, through a mechanism such as the State Revolving Fund (SRF).

An overarching principle for AWWA is our belief that the public is best served by utilities that are self-sustaining through their rates and other local charges. Water utilities should receive sufficient revenues from water service, user charges, and capital charges, such as system development charges, to enable them to finance all operating and maintenance expenses and all capital costs, including the cost of repairing and replacing infrastructure. This suggests that federal assistance should be a “helping hand” to utilities facing special challenges, and not a permanent part of utility financing.

ASSISTANCE FOR COMMUNITY WATER SYSTEMS

Notwithstanding AWWA’s commitment to full cost recovery through rates, some water systems will require assistance from time to time to smooth out large and unavoidable “humps” in their capital investment plans. The problems posed by such humps are especially severe in systems with large amounts of stranded assets resulting from significant population declines in their service territory or large federal mandates for investment to remediate combined sewer overflow (CSO) problems.

The federal government should renew its commitment to significant support for compliance with health-protective standards, security, and the repair and replacement of aging infrastructure. AWWA recommends the following for federal assistance for drinking water utilities:

1. The United States provide assistance to community water systems in the form of very low or no-interest loans with a 30-to-40 year repayment period. The federal government, or the states if the program is administered through them, should also have clear authority to make grants, or grants and loans in any combination, including negative-interest loans, and to use other financing tools to leverage public and private capital.
2. Congress clarify that projects to meet standards; repair, replace, or rehabilitate drinking water infrastructure; and to address security needs are eligible for assistance.
3. All community water systems be eligible for assistance, regardless of size or type of ownership.
4. Repayment terms and conditions be reasonable. They may include demonstrations of system viability and ability to repay a loan.
5. The application process and other procedures for those wishing to access these funds be streamlined and minimized.
6. There be a designated allocation in the program for large systems similar to the one in current law for small systems (15 percent), unless there are insufficient projects to use earmarked funds in a given year.
7. Funds be available and encouragement given for voluntary consolidation among water systems where such consolidation is practical and cost-effective.
8. At least \$15 billion over the next five years be provided in federal assistance to community water systems for the purposes described above.

While these recommendations are specific for drinking water funding, the subcommittee may find some of them useful for changes to the Clean Water Act. Specifically, the DWRSF permits a form of grants that are not permitted in the CWSRF.

FEDERAL MANDATES AND THE CONTEXT FOR DRINKING WATER AND WASTEWATER INFRASTRUCTURE FUNDING ISSUES

Both drinking water and wastewater utilities face enormously expensive federal mandates that set the context for all other funding issues. The drinking water community faces a complex array of expensive new federal requirements and new standards, including standards for arsenic, radon, disinfection byproducts, enhanced surface water treatment, and others. Wastewater utilities also face enormously expensive federal mandates, such as those relating to Combined Sewer Overflows (CSO) and Sanitary Sewer Overflows (SSO). For both water and wastewater utilities, these needs significantly skew financing for other investments, including the replacement of aging pipes, appurtenances, and other infrastructure. Local ratepayers are often seriously challenged to pay for these mandates, and little, if any, room is left in the ratepayer's budget for other vital spending. In many cases, it appears that mandatory spending for clean water mandates has "driven out" the ability to raise rates for routine repair and replacement for both wastewater and drinking water.

We believe that significant federal assistance, including grants, is necessary and justified to help meet the cost of these very expensive federal mandates on water and wastewater utilities, and to meet the costs of infrastructure repair and replacement that have been, in many cases, deferred because federal mandates have consumed the ratepayer's budget.

We would point out that, in the case of CSO and SSO mandates, federal support for the cost of those requirements is not only justified in the community receiving federal support, it also lowers costs for drinking water utilities downstream in the form of improved water quality. This is especially true in critical source water protection areas. These investments are beyond the means of many communities to reasonably finance without assistance and provide direct positive benefits to the entire nation. AWWA believes that federal assistance should be prioritized to protect sources of drinking water first.

MEASURES BY UTILITIES

Drinking water utilities currently provide more than 96 percent of all spending on drinking water infrastructure, and local sources will continue to provide a large majority of funds for such infrastructure investment. To address the challenge of local funding, AWWA recommends that:

- A. Utilities examine their rate structures and strive to be fully self-sustaining through rates and other local sources of revenue. This should include on-going efforts to assess the condition of system infrastructure through sound management tools such as asset management programs, and budgeting for repair and replacement as necessary to maintain service standards over the long run.
- B. Utilities be sensitive to the needs of their low-income water customers, and consider sponsoring, promoting, or adopting programs that help such customers pay for the water they need.

DRINKING WATER SECURITY NEEDS

The al Qaeda terrorist network and others are known to have conducted research on drinking water systems in the United States and abroad. If the intent is to create terror in our society, water systems serving large, medium, and small communities could all be targets of opportunity for terrorists, not only to contaminate the water supply, but also to deny first responders water for fire protection in a coordinated terrorist attack.

Congress required drinking water utilities to conduct "vulnerability assessments" and to take a harder look at emergency response plans. These assessments identified areas where utilities need to add new security features and other safeguards against malevolent possible attack. Security needs will manifest themselves in different ways in different utilities. Some utilities may require additional and better fencing. Some may need to upgrade entrance access points for personnel and supply vehicles. Others may have to harden existing pump buildings, chemical storage buildings, and transmission mains, or add redundant infrastructure. And some may actually have to relocate facilities, including pipelines and distribution mains. The response to these concerns will be highly local, and it will be expensive. But without question, it will enhance the security of the American drinking water supply.

Cognizant of the many needs facing drinking water utilities, AWWA did an analysis to estimate the costs to undertake the immediate next steps in water system security: The cost of upgrading systems to ensure secure control of access to critical utility assets in community water systems subject to the Bioterrorism Act is approximately \$1.6 billion. This does not include the capital costs of upgrades to address vulnerabilities identified in vulnerability assessments such as hardening pumping stations, chemical storage buildings, transmission mains, adding redundant infrastructure or relocating facilities and pipelines. Thousands of community water

systems must make such investments to close vulnerabilities identified in the assessments done under the Bioterrorism Act. Nationwide, these needs undoubtedly total billions of dollars, and can be considered the cost of a secure water supply. Because homeland security is primarily a federal responsibility and the security needs are so large that they would swamp utility finances and funds through existing programs, Congress should consider providing water security improvement grants.

POLICY CONSIDERATIONS

Because the federal budget deficit has become such a serious political issue in Washington, it is likely that significant increases in federal assistance may be possible only if new, dedicated taxes can be developed. We need to consider several questions with respect to any funding proposal that dedicates new tax revenues to infrastructure investments. Most important, what is the source of funds? AWWA is unalterably opposed to a federal water tax in any form. Will new revenues really be spent on infrastructure, or will some be diverted to other programs and used to reduce the federal deficit? Will expensive new mandates be attached to the infrastructure funding legislation, raising project costs and negating the advantages of the assistance offered? What criteria will determine who gets assistance? Which communities or states will pay more in taxes than they get back, and who will subsidize whom? How much should we look to Washington to address local problems? How much will still need to be done locally, even if there is a new federal program? Finally, how can we best encourage utilities and local officials to start now on the important work at hand?

AWWA deeply respects the work required to develop infrastructure funding legislation and will consider legislative proposals to that address the Nation's drinking water needs. At this time, however, AWWA has not endorsed any infrastructure funding proposal.

AWWA ACTIVITIES

As you are probably aware, local governments currently pay over 97 percent of the costs of drinking water infrastructure. We believe that under any scenario, including new taxes and significant increases in federal assistance, local sources will continue to pay a large majority of the costs of providing safe water, and of water infrastructure.

Recognizing that most of the job is and should be up to local government, AWWA is focusing significant effort and resources towards giving utility managers and local officials the tools they need to meet the growing costs of water service with local resources:

- Last year we sent to all AWWA utility members a copy of our report "Avoiding Rate Shock: Making the Case for Water Rates."
- We recently sent to all AWWA utility members a new report entitled "Thinking Outside the Bill" about ways to assist low-income customers when water bills must rise.
- We are developing a new report describing ways to convey to local elected officials and customers the importance of starting now on asset management and infrastructure reinvestment.

CONCLUSION

In summary, we are inheritors of magnificent water and wastewater systems built by previous generations. It is incumbent upon us to act as good stewards of those systems. We believe good stewardship implies the need to increase investment in infrastructure over the next several decades. While some communities need federal assistance, we believe that all utilities should strive to be self-sustaining through their rates and other local charges. This starts with adoption of an effective asset management program and an assessment of local rates. The time to start that important work is now.

How we address our emerging drinking water infrastructure and security needs is a critical question facing the Nation and this Congress. America needs a new partnership for reinvesting in drinking water infrastructure. There are important roles at all levels of government. To help reduce the burden on consumers, many water utilities have made great strides in efficiencies, with some utilities achieving a 20 percent savings in operations and maintenance. Water utilities will continue to reduce costs, seek cost-effective financing and employ innovative management strategies. Regardless, there will be significantly increased costs for needed infrastructure investment.

AWWA does not expect that federal funds will be available for 100 percent of the increase in infrastructure and security needs facing the nation's water utilities. AWWA remains committed to the principle of full cost recovery through rates. However, AWWA does believe that due to concurrent needs for investment in water and wastewater infrastructure, security projects, replacement of treatment plants, new drinking water standards, and demographic changes, many utilities will be very hard pressed to meet their capital needs without some form of federal assistance. Much of our investment need is driven by federal mandates and new

security needs. The nation has already accepted the principle that the federal government should help pay for what it requires other levels of government to do. Over the next twenty years, it is clear that Safe Drinking Water Act (SDWA) and Clean Water Act (CWA) compliance requirements and infrastructure needs will compete for limited capital resources. New security concerns, combined with the aging of many water systems, plus the capital cost of compliance with federally mandated regulations, such as lead service line replacement, drive the need to greatly increase the level of investment in water-related infrastructure now. Customers are likely to be very hard pressed in many areas of the country. Compliance, security and infrastructure needs under the SDWA and CWA can no longer be approached as separate issues. Solutions need to be developed in the context of the total drinking water and wastewater compliance, security and infrastructure needs.

AWWA and its members thank you for holding this hearing concerning the financing of water infrastructure projects. AWWA pledges to work with Congress to develop a responsible and fair solution to the Nation's growing water infrastructure challenges. We thank you for your consideration of our views.

This concludes the AWWA statement on financing water infrastructure projects. I would be pleased to answer any questions or provide additional material for the subcommittee.